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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington D.C. 20554

ORIGINAL

In the Matter of	)	
	)	CC Docket No. 97-250
Tariffs Implementing Access Charge Reform	)	

AT&T CORP.
COMMENTS ON DIRECT CASES

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March 16, 1998

No. of Copies rec'd 0+4

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SUMMARY

The direct cases filed by the price cap local exchange carriers ("LECs") confirm that the LECs' tariffs violate the Commission's orders in numerous ways and effectively force interexchange carriers ("IXCs") and their customers to incur approximately $400 million or more in inflated access charges. Further, if these tariffs are allowed to stand, at least $100 million will continue to be improperly collected through the anti-competitive transport interconnection charge ("TIC") rather than through the charges required by the Commission. Together, these impermissible errors will distort investment signals, discourage efficient calling practices, and ultimately undermine competition.

As AT&T demonstrates in Part I, certain price cap LECs have persistently inflated carrier access charges by underestimating end-user common line ("EUCL") demand, thereby subverting the Commission's goal of shifting common line cost recovery to end-users. Those price cap LECs that underestimate demand accomplish this impermissible result primarily by using self-serving definitions of "primary" and "non-primary" residential lines. Accordingly, the Commission should eliminate the distinction between primary and non-primary residential lines, and instead should set a single, flat-rated charge for all residential and single line business lines.

If the Commission nonetheless elects to pursue a two-tier pricing structure, AT&T believes that the "billing/name account" definition used by all price cap LECs except Ameritech, BellSouth, U S WEST, and SNET is unreasonable, ambiguous, objectively inaccurate, susceptible to consumer gaming, and will impose unnecessary administrative burdens on both the Commission and the carriers. Indeed, AT&T estimates that this unreasonable definition has impermissibly produced a $185 million undercharge in flat-rate revenues (and a similar overcharge in carrier common line ("CCL") revenues) and is the primary cause of the price cap LECs' unexpectedly low non-primary residential line counts.

The Commission also should reject Ameritech's exclusion of inward-only lines from its PICC line counts.

As shown in Part II, certain price cap LECs have inflated their CCL charges by understating the per-line base factor portion ("BFP") requirement. Thus, the Commission was correct in concluding that the current maximum CCL rates of Bell Atlantic (including the former NYNEX companies), the Sprint LTCs, and U S WEST are unreasonably high for this reason. Indeed, as shown below, these LECs' CCL rates are overstated by approximately $56 million, on a going-forward basis, because of past under-forecasting of BFP. The Commission should require these LECs to immediately reduce their overstated CCL rates to the appropriate levels to rectify this error.

As discussed in Part III, another source of overstated access charges is the price cap LECs' misguided methodology for calculating exogenous cost changes for line-side and dedicated trunk ports. In that regard, the Commission's recommended revenue-based methodology is the only methodology that will remove all line-side and dedicated trunk port revenues from the Traffic Sensitive basket, and hence is the only methodology that is consistent with the Commission's holding in In re Access Charge Reform, CC Docket No. 92-262, FCC 97-158, First Report and Order (released May 16, 1997) ("Access Reform Order"). The price cap LECs' "revenue requirement" methodology violates the Access Reform Order by leaving $420 million in line-side port revenues in the Traffic Sensitive basket, where they will be collected through usage-based charges, rather than the flat-rated charges mandated by the Commission.

By the same token, the Commission has erred in tentatively concluding that price cap LECs should calculate their line-side port revenue requirements at an 11.25% rate of return for the purposes of adding line-side port costs into EUCL rates. The Commission's suggested approach would violate the Access Reform Order by allowing price cap LECs to recover line-side port costs through usage-based CCL rates, rather than through the per-line rates required by the Commission. The Commission's proposed methodology is also difficult to implement, and price cap LEC compliance will be impossible to confirm because the methodology requires price cap LECs to use complicated and unverifiable proprietary cost models to produce forecasts of line-side port revenue requirements at the 11.25% rate of return. To remedy these deficiencies, the Commission should adopt a simple, straightforward, line-side port ratemaking methodology that follows the procedures set forth in the current TRP instructions.

As shown in Part IV, the price cap LECs have also overstated access charges by incorrectly calculating certain adjustments to the TIC. Some have done so by failing to heed the Commission's correct conclusion that price cap LECs should allocate central office equipment ("COE") maintenance and marketing exogenous cost changes to the TIC as it existed prior to July 1, 1997. This error alone has caused price cap LECs to underassign $37 million of their marketing and COE maintenance expenses to the residual TIC, and to miscalculate the residual and facility-based cost amounts that are subject to the excess targeting true-up.

Some price cap LECs have also improperly increased the TIC by incorrectly accounting for actual minutes of use ("MOU"). In addition, two price cap LECs, Frontier and SBC-Nevada, persist in using the wrong methodology to recalculate the residual TIC. For example, SBC-Nevada continues to use its 1997 Annual Filing Proposed TIC Revenue when it instead should use Annual Filing Current TIC Revenue. Both price cap LECs also failed to compare the recalculated TIC to the actual targeted TIC revenues, thus undermining the very purpose of the TIC true-up calculation. Both LECs also failed to include all of the appropriate exogenous costs.

As shown in Part V, the price cap LECs have also overstated access charges by continuing to make errors in their Universal Service support calculations. For example, Ameritech has failed to provide any plausible explanation of why it applied its Universal Service fund ("USF") exogenous adjustment to trunking basket interstate end-user revenues of only $1,225,535 when its company records show that these revenues actually amount to $67,653,747. Other price cap LECs have also inflated their access charges by improperly allocating their USF exogenous costs among the common line, trunking, and interexchange baskets. To remedy these defects, the Commission should require all price cap LECs to use the allocation methodology adopted by the majority of the price cap LECs. The Commission should also further refine its guidelines on the proper method of USF distribution.

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Tariffs Implementing Access Charge Reform	)	

AT&T CORP.
COMMENTS ON DIRECT CASES

Pursuant to the Commission's Designation Order,[1] AT&T Corp. ("AT&T") hereby submits these comments on the direct cases filed by the price cap LECs in this proceeding.[2]

INTRODUCTORY STATEMENT

In its December 11, 1997 and December 23, 1997 petitions,[3] AT&T demonstrated that the price cap LECs' January 1, 1998 access tariff filings contain significant errors that, if not corrected, would frustrate efficient competition and impose improper and excessive access charges on IXCs and,

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[1] In re Tariffs Implementing Access Charge Reform, CC Docket No. 97-250, Order Designating Issues for Investigation and Order on Reconsideration, DA 98-151 (released Jan. 28, 1998) ("Designation Order").

[2] Those carriers are: Aliant Communications Co. ("Aliant"); Ameritech Operating Companies ("Ameritech"); Bell Atlantic Operating Companies ("Bell Atlantic"); BellSouth Telecommunications, Inc. ("BellSouth"); Cincinnati Bell Telephone Company ("CBT"); Citizens Telecommunications Companies ("Citizens"); Frontier Telephone Companies ("Frontier"); GTE Telephone Operating Companies ("GTOC") and GTE Systems Telephone Companies ("GSTC") (collectively, "GTE"); Pacific Bell, Nevada Bell and Southwestern Bell Telephone Company ("SWBT") (collectively, "SBC"); Southern New England Telephone Company ("SNET"); Sprint Local Telephone Companies ("Sprint LTCs"); and U S WEST Communications, Inc. ("U S WEST").

[3] Petition and Comments of AT&T Corp., In re Access Reform Tariff Filings (Dec. 11, 1997) ("AT&T's Dec. 11 Petition"); Petition of AT&T Corp., In re Access Reform Tariff Filings (Dec. 23, 1997) ("AT&T's Dec. 23 Petition").

ultimately, consumers. The price cap LECs' direct cases provide additional evidence that AT&T is correct. The direct cases show that the price cap LECs have inflated access charges by (i) underestimating end-user common line demand; (ii) overstating CCL charges; (iii) miscalculating exogenous cost changes for line-side ports and end office trunk ports; (iv) making improper adjustments to the TIC; and (v) misallocating universal service costs among the price cap baskets.

AT&T estimates that, as a result of these errors, the price cap LECs' access rates are inflated, in the aggregate, by over $400 million. The Commission should act immediately to prevent these overcharges from undermining the Commission's goals of promoting competition, creating cost-based access rates, improving efficiency, and ensuring fairness to all carriers and end-users.

ARGUMENT

I. SOME PRICE CAP LECS HAVE UNDERESTIMATED END-USER COMMON LINE DEMAND.

Certain price cap LECs continue to underestimate end-user common line demand by using improper definitions of "primary" and "non-primary" residential lines and by excluding inward-only lines from SLC and PICC line counts. As a result of these miscalculations, the price cap LECs have produced a $185 million overcharge in PICC and CCL revenues. Although the Commission should solve the first problem by simply eliminating the distinction between primary and non-primary residential lines, if the distinction is retained, the Commission should require the price cap LECs to recalculate their EUCL demand using the "service address" definition of primary and non-primary lines. The Commission also should require Ameritech to include inward-only lines in its PICC line counts.

A. The Commission Should Abandon The Distinction Between Primary And Non-Primary Residential Lines, But If The Distinction Is Maintained, The "Service Address" Definition Should Be Used.

In the Designation Order, the Commission found that the price cap LECs' tariffed rates were based on non-primary residential line counts that were much lower than the Commission had expected. Designation Order ¶ 16.[4] The Commission further found that these low line counts were suspicious because, for example, PacBell's filings indicated that its ratio of non-primary residential lines to all residential and single-line business is only 3.34%, despite the fact that PacBell had stated in 1996 that 20% of its residential customers had more than one access line and that the company was experiencing 152% growth in additional lines. Id. at ¶¶ 7 (Figure 1) & 16. The Commission noted that "[l]ow non-primary residential line percentages could be due to definitions that do not reasonably identify non-primary residential lines, or to the way in which the definitions are applied."[5] The Commission therefore "designate[d] for investigation, for all price cap LECs, both the question whether the LECs used reasonable definitions of non-primary lines and the question whether these definitions were applied in a reasonable manner." Id.[6]

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[4] On average, the price cap LECs identify only 8.22% of non-multiline business lines as non-primary residential or BRI ISDN lines. Designation Order ¶ 16.

[5] The Commission specifically held that SWBT's, BellSouth's, and SNET's tariff filings proffered definitions of primary and non-primary lines that were impermissibly circular or inscrutably vague. Id. ¶ 15.

[6] The Commission further required:

> each price cap LEC to identify the number of lines in each of the following categories: (1) primary residential lines; (2) single-line business lines; (3) non-primary residential lines; and (4) BRI ISDN lines. In addition, using the worksheets attached as Appendix B, each price cap LEC's direct case must delineate what, how, and in which order data were sorted and used in accordance with its definition to arrive at the primary and non-primary residential line count totals submitted pursuant to this order. We also direct each price cap LEC to include in its direct case an explanation of why

(continued...)

The direct cases confirm that the best course of action is for the Commission simply to eliminate the distinction between primary and non-primary lines and to set a flat-rated charge for all residential and single line business lines.[7] This approach is supported by a number of carriers because it would eliminate subscriber manipulation of end-user common line charges, and because it would relieve the Commission and the carriers of significant administrative burdens.[8]

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[6] (...continued)

> its definition is reasonable.

Id. ¶ 17. The Commission also required BellSouth, SNET, and SWBT to

> explain fully their definitions of primary and non-primary residential lines, including any assumptions that went into these definitions, and invite them, in their direct cases, to submit modified, expanded, or clarified definitions as necessary. These price cap LECs should make clear what lines these definitions include and the manner in which they would be identified, such as by account number(s), billing number(s), customer name, location, or by whatever sorting method the LEC chose to use.

Id. ¶ 15.

[7] See AT&T's Dec. 11 Petition at 38-40; AT&T's Dec. 23 Petition at 30-32. The flat-rate charge would represent a weighted average of primary residential lines, non-primary residential lines, and single-line business charges. AT&T estimates that the weighted average SLC and PICC would be \$3.62 and \$0.61, respectively, based on the price cap LECs' alleged non-primary residential line percentage of 8%. AT&T also estimates that the weighted average SLC and PICC would be \$3.69 and \$0.65, respectively, for a non-primary residential line percentage of 15%. In addition, as AT&T demonstrated in its Reply Comments (at 2) in Defining Primary Lines, CC Docket No. 97-181 (filed Oct. 9, 1997), a weighted average PICC would produce at most a de minimis cost increase for some customers. Moreover, there would be no danger of jeopardizing universal service because low income customers would continue to be supported by other programs (e.g., Lifeline).

[8] Subscriber manipulation occurs when a subscriber, in search of a lower end-user common line charge, uses a different name (e.g., the name of a spouse, child, or relative) to subscribe to additional lines at the same service location. Such subscriber "gaming" is possible under the "billing/name account" definition of primary and non-primary lines because, under this definition, the first line listed under a billing/name account is deemed "primary" regardless of whether previous lines/accounts exist at the same service address. Thus, under the billing/name account definition, the same service address could have two or more "primary" lines, and each additional line would be billed at the primary line rate, rather than the higher non-primary line rate. This manipulation is not possible if the primary/non-primary distinction is removed, because all lines would be charged the same rate. Nor (continued...)

If the Commission nonetheless elects to pursue a two-tier pricing structure, AT&T believes that a price cap LEC's definition of primary and non-primary lines is reasonable if it is (i) objectively accurate (e.g., does not attempt to misclassify additional lines as "primary"); (ii) unambiguous; (iii) not susceptible to subscriber manipulation; (iv) easily verifiable; (v) easily administrable; and (vi) non-intrusive. As the price cap LECs generally agree, these criteria are necessary to ensure that a price cap LEC's definition of primary and non-primary lines is consistent with the twin goals of competition and universal service.

AT&T applied these criteria to the price cap LECs' direct case responses and determined that the "service address" definition used by Ameritech, BellSouth, SNET, and U S WEST is reasonable. This definition is objectively accurate, unambiguous, and consistent with universal service principles because the first line at a service location is treated as primary, and all additional lines are treated as non-primary. Furthermore, the definition prevents subscriber manipulation of common line charges because all additional lines at the same location are treated as non-primary regardless of the account or name under which they are listed.[9] In addition, as Ameritech indicates, the definition is easily verifiable and administrable, and is non-intrusive with respect to living relationships.[10]

By contrast, the "billing/name account" definition used by the other price cap LECs fails to satisfy the reasonableness criteria because it is susceptible to subscriber manipulation (i.e., a consumer can use different names or accounts to subscribe to additional lines at the same location, and all of

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[8] (...continued)
is such manipulation possible under the "service address" definition because, under this definition, all additional lines at a service address are deemed non-primary regardless of whether they are listed under different accounts or different subscriber names.

[9] See supra note 8.

[10] Ameritech Direct Case at 3.

those additional lines will improperly be deemed "primary").[11] This result renders the definition objectively inaccurate, ambiguous, and inconsistent with universal service principles. Furthermore, the definition creates unnecessary administrative work by encouraging the proliferation of customer accounts.

The unreasonableness of the "billing/name account" definition is further underscored by the fact that the definition is the primary cause of the price cap LECs' unexpectedly low non-primary residential line counts. The price cap LECs' responses to the Commission's Appendix B Page 5 Worksheet show that price cap LECs using the "service address" definition report twice the percentage of non-primary lines as do price cap LECs using the "billing/name account" definition. For example, Bell Atlantic's number of non-primary lines would increase by approximately 200% if the "service address" definition was used instead of the "billing/name account" definition. Indeed, AT&T estimates that the price cap LECs using the "billing/name account" produced a $185 million under-charge in flat-rate revenues (and a similar overcharge in CCL revenues).

The Commission also has requested comment on whether the price cap LECs applied their definitions of primary and non-primary residential lines in a reasonable manner. Because AT&T does not have access to the price cap LECs' customer records, AT&T cannot verify if the price cap LECs accurately counted line quantities. Nonetheless, relying on the price cap LECs' own verification processes, AT&T believes that Bell Atlantic's Line Count Data Formation describes an unreliable quantification process because the process appears to be based on estimates of estimates, and inexplicably caused Bell Atlantic's primary residential/single line business line counts to increase by

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[11] See supra note 8.

874,652 versus its December 17, 1997 filing.[12] In addition, several price cap LECs such as Bell Atlantic, GTE, and Sprint LTCs unreasonably excluded Lifeline EUCLs from their primary line counts. Also, it is unclear whether BellSouth implemented the correct methodology when, for the purpose of applying SLCs and PICCs, it excluded ISDN local exchange service from primary and non-primary EUCL counts.[13] Finally, because SBC failed to complete the Commission's Appendix B Worksheet, or clearly explain SBC's primary line definition, AT&T is unable to comment on SBC's implementation.

B. Ameritech Should Recalculate Its Subscriber Line Charge and Presubscribed Interexchange Carrier Charge Line Counts To Include Inward-Only Lines.

Ameritech has underestimated end-user common line demand, and consequently has inflated its access charges, by excluding inward-only lines from its PICC line counts. Ameritech's position has no basis in the Access Reform Order and, indeed, would lead to violations of the Commission's rules regarding assignment of costs to the interstate jurisdiction. For these, and other reasons, all of the other price cap LECs have included inward-only lines in their PICC line counts, and Ameritech should be required to do the same.

In the Designation Order, the Commission tentatively concluded that Ameritech should include inward-only lines in its PICC line counts when Ameritech calculates its maximum allowable PICC and CCL charges. Designation Order ¶ 25.[14] In addition, the Commission held that Ameritech's direct case must include line counts recalculated in accordance with the Commission's

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[12] Bell Atlantic Direct Case at Appendix B, page 1.

[13] BellSouth Direct Case at 7, item 2.

[14] The Commission also tentatively rejected Ameritech's position that each PRI ISDN service application should be counted as five SLCs, but only one PICC, and concluded that, for purposes of calculating the maximum CCL charge, Ameritech's PRI ISDN SLC and PICC counts should be identical. Designation Order ¶ 27.

tentative conclusion, and must explain why Ameritech's treatment of inward-only lines should be considered reasonable and consistent with the Access Reform Order. Id. ¶¶ 25, 27.

Ameritech cannot show that its exclusion of inward-only lines from its PICC line counts is reasonable. All other price cap LECs have rejected Ameritech's position and have included inward-only lines in their PICC line counts. In the face of this otherwise unanimous approach, Ameritech attempts to defend its unique position by suggesting that paragraph 92 of the Access Reform Order[15] indicates that a PICC should not be assessed on customers who do not have the option of selecting a presubscribed interexchange carrier. Contrary to Ameritech's position, however, "[t]here is no provision in the Access Charge Reform Order that exempts inward-only lines from being included in the SLC and PICC counts." Designation Order ¶ 25. Paragraph 92 merely indicates the Commission's intention to assess PICCs on all customers, even if those customers choose not to presubscribe to a long distance carrier. It does not provide any reasonable basis for Ameritech's decision to exempt inward-only lines.

Furthermore, excluding inward-only lines from PICC line counts is unreasonable because it would violate the Commission's Part 69 rules for computing interstate common line rates.[16] By

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[15] Paragraph 92 states:

> We adopt the Joint Board's recommendation that incumbent LECs may collect directly, from any customer who does not select a presubscribed carrier, the PICC that could otherwise be assessed against the presubscribed interexchange carrier. Assessing the PICC directly against end users that do not presubscribe to a long distance carrier should eliminate the incentive for customers to access long-distance services solely through "dial-around" carriers in order to avoid paying long-distance rates that reflect the PICC.

Access Reform Order ¶ 92.

[16] In its amendments to the Code of Federal Regulations, paragraph 69.153(d), the Access Reform Order states:

(continued...)

contrast, if Ameritech adopts the approach of all the other price cap LECs and includes its inward-only lines in its SLC and PICC line counts, the Part 69 violations will be avoided.

II. SOME PRICE CAP LECS HAVE OVERSTATED CARRIER COMMON LINE CHARGES DUE TO PAST UNDERESTIMATES OF THE PER-LINE BASE FACTOR PORTION.

The price cap LECs' common line charges are also grossly overstated -- by approximately $56 million in 1998 alone -- because of the LECs' erroneous calculation of the effects of past underestimation of per-line BFP revenues requirements. The Commission should require the price cap LECs to recalculate these charges using the methodology previously proposed by AT&T.

In the 1997 Tariff Investigation Order,[17] the Commission found that Bell Atlantic, NYNEX, GTE, SWBT, the Sprint LTCs, and U S WEST had consistently underestimated their per-line BFP revenue requirement forecasts since 1991. 1997 Tariff Investigation Order at Exh. Table A1. The Commission further held that "a LEC that has consistently understated its per-line BFP revenue

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[16] (...continued)

> To the extent that a local exchange carrier cannot recover its full common line revenues, residual interconnection charge revenues, and those marketing expense revenues described in § 69.156(a) permitted under price cap regulation through the recovery mechanisms established in §§ 69.152, 69.153(c), and 69.156(b) and (c), the local exchange carrier may assess a PICC on multi-line business subscriber lines and non-primary residual subscriber lines.

Access Reform Order, Appendix C at 23 (emphasis added). Nothing in this paragraph, or elsewhere in the Access Reform Order, allows price cap LECs to exclude inward-only lines when assessing PICCs on multi-line business subscriber lines. Thus, for the purposes of common line rate development, price cap LECs should assess the PICC on all multi-line business subscriber lines. A contrary approach would decrease the common line costs recovered through flat charges, and increase the common line costs recovered through per minute charges -- in direct violation of the Commission's objective "to ensure that traffic-sensitive costs are recovered through traffic sensitive charges and NTS costs are recovered through flat-rated charges, wherever appropriate." Access Reform Order ¶ 53.

[17] In re 1997 Annual Access Tariff Filings, CC Docket No. 97-149, Memorandum Opinion and Order (released Dec. 1, 1997) ("1997 Tariff Investigation Order").

requirement over the course of several years has also consistently and correspondingly inflated its maximum CCL rate." Id. ¶ 101. The Commission took appropriate action to remedy this problem by prescribing a per line EUCL rate for each of these price cap LECs, and by identifying the extent to which they had under-forecasted their EUCL rates in previous years.

In its December 23, 1997 Petition, AT&T demonstrated that the price cap LECs' CCL errors have forced IXCs to pay hundreds of millions of dollars in excessive charges over the past seven years and, if these errors were not corrected, IXCs would continue to pay millions of dollars in additional inefficient and excessive charges in 1998 alone.[18] Using U S WEST as an example, AT&T demonstrated that, as a result of U S WEST's past understatement of per-line BFP revenue requirements, U S WEST overcharged IXCs $218 million from 1991 to 1997, and would continue to overcharge IXCs by $18 million on a going-forward basis.[19]

In the Designation Order, the Commission agreed with AT&T and tentatively concluded that "the current maximum CCL rates of Bell Atlantic, NYNEX, GTE, SWBT, the Sprint LTCs, and U S WEST are unreasonably high due to past understatements of per-line BFP revenue requirement[s]." Designation Order ¶ 35.[20] Accordingly, the Commission directed each of these price cap LECs to provide, as part of its direct case, "a recalculation of its maximum common line

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[18] AT&T's Dec. 23 Petition at 3.

[19] Id. at Exh. CCL-Refund. AT&T has since discovered an input error in AT&T's December 23, 1997 Petition regarding the presentation of U S WEST data for 1997. AT&T incorrectly showed U S WEST's proposed CCL rate cap at $0.003456. AT&T's Dec. 23 Petition at Exh. CCL-Refund, page 3g, line 480, column A. In fact, U S WEST's proposed CCL rate cap was $0.003942, as filed in US WEST Transmittal 847. Correcting this error reveals that U S WEST's 1997 Annual Filing CCL rate cap is overstated by $43 million, instead of $18 million.

[20] The Designation Order only addresses price cap LEC overcharges that will be imposed on IXCs on a going-forward basis, and does not address overcharges that were imposed on IXCs prior to January 1, 1998. Designation Order ¶ 31, n.73.

revenues, using the CCL Recalculation Methodology employed by AT&T in its December 23 Petition." Id.

Some of the price cap LECs' recalculations are in error. For example, Bell Atlantic-North miscalculated the 1992 CCL rate cap.[21] Furthermore, due to the nature of the CCL rate recalculations, this error had ripple-like effects in each subsequent year. When this error is corrected, the recalculated CCL rate cap for 1997 is .005578, not .005639 as claimed by Bell Atlantic-North. See Exh. CCL 3, page 7. Thus, Bell Atlantic-North's existing rate constitutes an overcharge of $4.2 million in the current year. See Exh. CCL 1, page 3.

Bell Atlantic-South also made errors in its CCL rate recalculations. First, using the inputs referenced by Bell Atlantic-South, AT&T calculated "proposed" EUCL rates that varied from those

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[21] AT&T is in complete agreement with the methodology used by Bell Atlantic-North, in its direct case, to recalculate CCL Terminating Rate Caps and revised EUCL charges.. However, AT&T discovered a mathematical error in Bell Atlantic-North's Exhibit B1, page 1b, column (b), row 340, Base Demand * Proposed SLCs. Bell Atlantic-North shows a result of $735,633,697, but AT&T calculates a result of $737,314,389, as shown in the following table:

Rate Element	Demand	Proposed Rate	Proposed Revenue
Multi-line Bus	43,977,483	5.420141	238,364,159
Res & SLB	125,343,198	3.500000	438,701,193
Lifeline	6,818,125	3.500000	23,863,438
Spec Access	193,664	25.000000	4,841,600
Other			31,544,000
			737,314,389

Correcting Bell Atlantic-North's error changes the recalculated 1992 CCL Rate Cap and, due to the nature of the calculations involved, produces ripple effects in subsequent years. The cumulative effect of correcting the error made in recalculating the 1992 CCL Rate Cap, when flowed through to the recalculation of the 1997 CCL Rate Cap, changes Bell Atlantic-North's 1997 result of .005639 to .005578. The recalculated rate of .005578 is lower than Bell Atlantic-North's filed rate of .005656, as determined in their 1997 Annual Filing, creating an overcharge of $4.2 million in 1997.

calculated by Bell Atlantic-South. See Exh. CCL 4, page 1-6. Second, Bell Atlantic-South failed to properly carry forward these EUCL rates into the CCL recalculations for the following year. For example, Bell Atlantic-South calculated a proposed Multi-line Business EUCL rate of $5.03975131 in 1993, but used a rate of $5.053509 to calculate the CCL rate cap in 1994. When these errors are corrected, the recalculated CCL rate cap for 1997 should be .004192, not .004253 as claimed by Bell Atlantic-South. See Exh. CCL 4, page 6. Since this rate is lower than Bell Atlantic-South's existing rate of .004293, this error results in an overcharge of $6.8 million in the current year. See Exh. CCL 1, page 2.

In the aggregate, the price cap LECs' CCL recalculations (once corrected) show that the price cap LECs' CCL rates are overstated by approximately $56 million, on a going-forward basis, due to past under-forecasting of BFP. See Exh. CCL 1, page 1.[22] Although the price cap LECs argue that price cap formulas will eventually undo these egregious overcharges, that is an insufficient reason to ignore the current overcharges. Indeed, the price cap LECs' CCL overcharges have presented a chronic problem that has not "self-corrected," but has instead impermissibly extracted over $409 million from IXC customers since 1991. Id. Furthermore, although price cap formulas may, after an extended period of time, eventually bring CCL rates down to a more reasonable level, they will not compensate IXC customers for the excessive and inefficient overcharges that they are incurring, and will continue to incur, in the meantime. See Exh. CCL 1, page 1.[23] Consequently, the only

[22] In addition, as shown in Exhibit CCL 2, the price cap LECs' current total common line revenues also are overstated by $47 million.

[23] The time at which the price cap formulas will reduce CCL rates to appropriate levels has been further postponed by the fact that the multiline business EUCL cap has been raised from $6.00 to $9.00 (effective July 1, 1997). "Self correction" will not occur until actual and forecasted EUCL rates reach this now-higher price cap.

acceptable solution is to require LECs to immediately reduce their overstated CCL rates to the appropriate levels.

III. THE PRICE CAP LECS HAVE MISCALCULATED EXOGENOUS COST ADJUSTMENTS FOR LINE-SIDE PORTS AND END OFFICE TRUNK PORTS.

The price cap LECs' misguided methodology for calculating exogenous cost changes for line-side ports and end office trunk ports also causes access charges to be overstated. The price cap LECs' "revenue requirement" methodology violates the Access Reform Order by leaving $420 million in line-side port revenues in the Traffic Sensitive basket, to be collected through usage-based charges, rather than the flat-rated charges mandated by the Commission. Thus, the Commission is correct in concluding that the price cap LECs should be required to use a revenue-based methodology. However, the Commission's tentative conclusion that price cap LECs should calculate their line-side port revenue requirements at an 11.25% rate of return for the purposes of adding line-side port costs into EUCL rates is incorrect. Unlike the simple methodology proposed by AT&T in these comments, the Commission's suggested approach would violate the Access Reform Order and would be difficult to implement and impossible to verify.

In the Access Reform Order (¶1), the Commission sought to "foster and accelerate the introduction of competition into all telecommunications markets" by "phasing out local loop and other non-traffic sensitive ("NTS") costs from [usage-sensitive access] charges and directing incumbent local exchange carriers (LECs) to recover those NTS costs through more economically efficient, flat-rated charges." Access Reform Order ¶ 6. The Commission sought to remove NTS costs from usage-sensitive interstate access rate elements because "the recovery of NTS costs on a usage basis . . . amounts to an implicit subsidy from high-volume users of interstate toll services to low-volume users of interstate long distance services." Id. ¶ 6. The Commission found that such an implicit subsidy "generates inefficient and undesirable economic behavior." Id. ¶ 30.

Consistent with these principles, the Commission concluded that the non-traffic sensitive costs of the local switch -- i.e., line-side port costs (including the costs associated with the line card, protector, and main distribution frame) -- should be recovered on a flat-rated basis, rather than a usage-sensitive basis. Id. ¶ 125. Accordingly, the Commission reassigned all line-side port costs from the Local Switching category of the Traffic Sensitive basket to the Common Line basket rate elements, which include the SLC and the PICC. Id. ¶¶ 125-26.

Similarly, the Commission concluded that the costs of a dedicated trunk port (including the trunk card and DS1/voice-grade multiplexers, if needed) also are NTS in nature, and should be recovered on a flat-rated basis from the carrier purchasing the dedicated trunk terminated by that port. Id. ¶ 127. The Commission further held that the costs of shared trunk ports should be recovered on a per-minute-of-use basis from the users of common transport trunks. Id. Accordingly, the Commission ordered price cap LECs to move these trunk port costs in the Traffic-Sensitive basket from the Local Switching category to a new "Trunk Ports" category, and to establish separate rate elements within this category for dedicated and shared trunk port costs. Id.

Because the Commission ordered price cap LECs to remove line-side and trunk port costs from the Local Switching category, and the Commission did not establish a fixed percentage of local switching costs that the price cap LECs must reassign to the Common Line basket or the newly created "Trunk Ports" category, the price cap LECs had to determine what percentage of their Local Switching costs were represented by line-side and dedicated trunk port costs. The Commission stated that, in light of the widely varying estimates in the record, each price cap LEC should conduct a cost study to determine the geographically-averaged portion of the interstate local switching costs attributable to its line-side and dedicated trunk ports. Id. ¶ 128. The price cap LECs were to reflect these amounts, including cost support, in their access tariffs effective January 1, 1998. Id.

In its December 11, 1997 Petition, AT&T showed that price cap LECs' methodologies for removing line-side and trunk port costs from their Traffic Sensitive baskets violated the Commission's express directions to remove all NTS costs associated with local switching.[24] AT&T demonstrated that, once the price cap LECs determined what percent of their total switching costs was associated with line-side and trunk port costs, the price cap LECs should have applied that percentage to their current Local Switching price cap band revenues.[25] Instead, the price cap LECs improperly applied that percentage to their Part 69 Local Switching revenue requirements calculated at a 11.25% rate of return.

In the Designation Order (¶ 48), the Commission agreed with AT&T and tentatively concluded that "revenues, and not Part 69 revenue requirements, are the best measure of the costs recovered through a particular price cap rate element." The Commission also sought comment on (i) whether the Commission is correct that revenues are a better measure of costs actually recovered through a particular rate element than Part 69 revenue requirements; (ii) whether the Commission should require LECs to use actual basket earnings if the Commission requires LECs to use Part 69 revenue requirements, rather than revenues, as a surrogate for costs; (iii) whether the Commission

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[24] AT&T's Dec. 11 Petition at 11-12.

[25] AT&T's Dec. 11 Petition at 10-11. AT&T also showed that the price cap LECs (i) should not have based their port cost percentages on internal, proprietary, and unverifiable cost models, id. at 6; (ii) failed to provide adequate material to support their calculated port cost percentage, id. at 6-9; and (iii) calculated port cost investment percentages that showed wide variation and fell well below the Commission's expectations, id. at 9-10. The Designation Order, however, failed to address AT&T's concerns over port percentage calculation, and instead solely addressed AT&T's concerns over port percentage application. AT&T respectfully requests the Commission to reconsider the issue of line-side port percentage calculation.

is correct that the best method for moving rate elements or services out of a basket or service category would be a method that left exactly zero permitted revenues in the basket or service category after all services or rate elements were removed; (iv) whether the Commission's port methodology should be applied to other reallocations required by the Access Reform Order; and (v) whether price cap LECs should use part 69 revenue requirements to recalculate the BFP if revenues are used as a surrogate for costs.

A. The Commission Is Correct That The Price Cap LECs Should Apply Line Port Investment Percentages To Actual Revenues, Not To Part 69 Revenue Requirements.

The Access Reform Order states that "consistent with principles of cost-causation and economic efficiency, NTS costs associated with local switching should be recovered on a flat-rated, rather than usage sensitive, basis." Access Reform Order ¶ 125 (emphasis added). To achieve this objective, the Commission ordered price cap LECs to move all line-side port costs from the Local Switching category of the Traffic Sensitive basket to the Common Line basket rate elements. Id. The Commission also required price cap LECs to remove the costs of dedicated trunk ports from the Local Switching category and to recover them on a flat-rated basis in a new Trunk Ports category. Id. ¶ 127. If the principle of cost causation is to apply (i.e., if revenues are to be associated with the costs that produce them), these provisions of the Access Reform Order must be interpreted to mean that price cap LECs should remove all line-side and dedicated trunk port revenues from the Local Switching category and should reallocate them to the Common Line basket and the new Trunk Ports category in the Traffic Sensitive basket.

The only way to move all line-side and dedicated trunk port revenues as required by the Access Reform Order is to use a revenue-based methodology. Any other methodology will violate the Access Reform Order by allowing NTS line-side port and trunk costs to be recovered through the Local Switching rate element. For example, the price cap LECs' "revenue requirement" methodology violates the Access Reform Order by leaving $420 million in line-side revenues in the Traffic Sensitive basket, where they will be collected through usage-based charges, rather than the flat-rated charges mandated by the Commission. See Exh. REV 1.[26] As the Commission has previously noted, this impermissible shortfall results from the fact that, after seven years of price cap regulation, Part 69 revenue requirements no longer represent what the price cap LECs are actually recovering from their access customers in the local switching band. See Designation Order ¶ 48. As shown in Exhibit REV 1, price cap LECs' June 30, 1997 local switching band revenues are approximately $1.8 billion higher than their local switching Part 69 revenue requirement calculated at a 11.25% rate of return.[27]

The price cap LECs attempt to avoid this conclusion by myopically focusing on the Access Reform Order's use of the term "costs" and by claiming that Part 69 revenue requirements somehow provide a better measurement of the price cap LECs' "costs" than do actual revenues. This argument is ill-conceived. The Part 69 revenue requirements serve the same function as price cap basket and band revenues -- both represent maximum allowable revenues under their respective systems, and neither purports to be a measure of "costs."[28] Thus, in choosing between these two revenue (i.e., cost

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[26] The Commission has correctly noted that this impermissible outcome can be avoided by adopting a revenue-based method for moving rate elements or services out of a price cap basket or service category. Designation Order ¶ 50.

[27] Revenue Requirement calculated at actual basket earning is also approximately $1.5 billion higher. See Exh. REV 2.

[28] The price cap LECs' direct cases simply misuse the term "cost" which, in the price cap context, is a term of art that means "maximum allowable revenues." When exogenous "cost" adjustments are made to PCIs, the actual effect of that "cost" adjustment is to reduce the maximum allowable revenues that can be recovered under that price cap. Similarly, when the Commission moves "costs" out of price cap baskets or categories, the actual effect of those moves is to reduce the maximum (continued...)

recovery) methodologies, the issue is not which revenue methodology better approximates "costs," but which methodology will ensure that recovery of those costs (whatever their actual amount) will occur through the rate elements specified by the Access Reform Order. As shown above, the Commission's recommended revenue methodology is the only methodology that ensures that all cost recovery of NTS line and trunk costs occurs under the required flat-rated charges.[29]

Nor can the price cap LECs claim that historical precedent compels the Commission to adopt the revenue requirement methodology. Regardless of historical precedent, the revenue requirement methodology violates the Access Reform Order by impermissibly leaving $420 million in line-side port revenues to be collected through usage-based charges in the Traffic Sensitive basket. Furthermore, the Commission has required the price cap LECs to use a revenue-based methodology in the past. For example, the Commission required price cap LECs to use a revenue-based methodology when the Commission required them to move all transport-related services from Traffic Sensitive basket to Trunking basket.[30] Similarly, removal of Line Information Database services from the local switching band also was accomplished under a revenue-based methodology. Recently, the

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[28] (...continued)
allowable revenues that can be recovered in those baskets or categories. Thus, when calculating the proper line-side and dedicated trunk port exogenous cost adjustments, the price cap LECs should use actual revenues as "costs," and not revenue requirements, because only the former represents maximum allowable revenues under the current price cap regime.

[29] BellSouth argues that since there are no separate rate elements for port costs, the revenue methodology cannot be used to estimate port revenues. This argument is a red-herring. As BellSouth concedes, there also are no separate cost categories for port costs under Part 69 revenue requirements. Although both methodologies have this weakness in common, the revenue-based methodology, as shown above, provides the best estimate of port revenues permitted under price caps, just as the revenue requirement-based methodology provides the best estimate of revenues permitted under rate of return regulation.

[30] In re Commission's Requirements for Cost Support Material to be Filed with 1994 Annual Access Tariffs and for Other Cost Support Material, DA 94-165 (released Feb. 18, 1994).